CANADA BROKERLINK INC.

Annual Report 1997

Index:

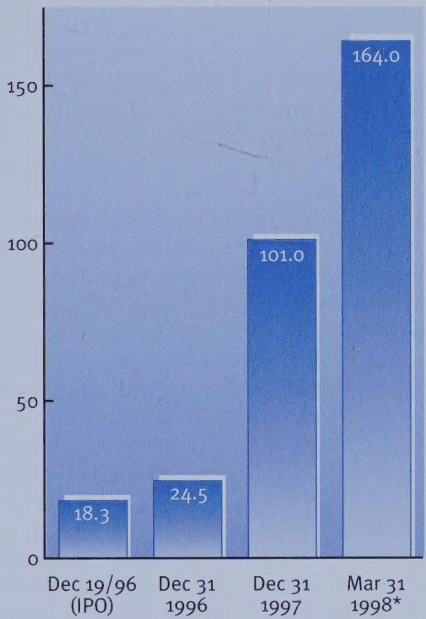
Corporate Profile

Canada Brokerlink Inc. is a Calgary based consolidator of independent insurance brokerages.

Brokerlink acquires brokerage outlets in strategic locations, then ties them together with a leading edge, proprietary computer network capable of creating great cost savings through the centralization of administrative and management functions. The company also provides various 'back room' services to independent brokers who do not wish to sell their businesses.

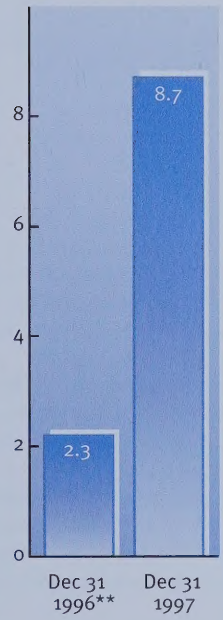
Brokerlink has embarked on an ambitious expansion program. As of April 15, 1998, Brokerlink owned and operated 35 insurance brokerage outlets in Alberta and Ontario (including several acquisitions to close June 1, 1998), and provided services on a percentage of commissions earned basis to 23 'managed' and 'member' brokerages.

Premium Volume Growth
(Millions of Dollars)



* This figure includes acquisitions scheduled to close June 1, 1998.

Revenues
(Millions of Dollars)



** The year end changed from Aug. 31 to Dec. 31 effective with the Dec. 31, 1996 reporting period. This figure is for the 12 month period ended Dec. 31, 1996.

Financial Highlights (Millions of Dollars)

12 Months Ended	Dec 31/97	Dec 31/96	% Change
Premium Volume (annualized)	$101.0	$24.5	312%
Revenues	8.7	2.3	278%
Assets	33.5	5.3	532%
Shareholders' Equity	16.3	2.6	527%
EBITDA*	1.099	(0.022)	n/a
Operating Cash Flow**	0.747	(0.022)	n/a
Net Income (loss)	0.091	(0.087)	n/a
Per Share (dollars)			
EBITDA	0.06	(0.01)	n/a
Operating Cash Flow	0.04	(0.01)	n/a
Net Income (loss)	0.01	(0.01)	n/a

* EBITDA - Net income before interest, tax, depreciation, and amortization.
** Operating Cash Flow - Net income before depreciation, amortization and deferred income taxes.

I am proud to say that during 1997, your company, which began as a moderately sized, Alberta-only insurance brokerage consolidator, became Canada's third largest insurance brokerage firm. By April, 1998, we had become number two.

Our acquisition of more brokerages in Alberta and our expansion into the huge Ontario market added more than $75 million in annualized premium volume to our December 31, 1996 base of $24.5 million – a 312% growth during 1997.

And, despite the costs associated with expanding our infrastructure to handle that growth, we are also proud to report a modest $91,159 profit for the year and operating cash flow of $747,438 on revenues of $8.676 million, net income per share of $.01 and operating cash flow per share of $.04.

One of the key reasons we were able to both grow and to profit is the success of our integration strategy. The more quickly and completely we integrate, the lower our operating costs and the more profitable we can be. Brokerlink is Canada's only insurance brokerage consolidator with a fully implemented integration program.

Aside from the financial statements, one of the best ways we can measure our success is through the eyes of others in our industry and in the financial industry. I am happy to say that we have done well in both arenas.

Our reputation amongst both independent insurance brokers (many of whom we seek to acquire), and the major insurance companies with which we deal, is a good one. Often now, we find ourselves negotiating acquisitions with major brokerage firms.

And the financial community has also recognized the potential that our company represents to investors. Its members are impressed by the quality and experience of our Board members, and by the fact that the company's executive team has extensive personal experience in the insurance industry.

As I write this letter (in April, 1998), our annualized volume has reached $164 million, a 796% growth since we went public in December, 1996.

Major 1997 milestones included:

- the kick-off of Brokerlink University – an internal staff training program which ensures that our corporate culture maintains its integrity as we acquire more brokerages. The program also teaches our employees to give better service to our customers.

- our attainment of the $100 million mark in annualized premium volume, and our growth far beyond that point.

- the restructuring of our management team to implement Regional Vice President positions, responsible for day-to-day operations in Alberta and Ontario.

During the new year, we will supplement our Alberta and Ontario anchor brokerages with complementary acquisitions of smaller brokerages in the same areas. These brokerages will be integrated into the operation of our anchors, thereby achieving significant cost savings. We will also seek new anchor brokerages, and we will continue to investigate expansion into other lucrative provincial markets.

In April, 1998, we completed arrangements for a second major financing, set at $22 million, to allow us to continue with our growth strategy. Later in 1998, we will also apply for listing on The Toronto Stock Exchange, a move which will give us greater visibility within the investment industry.

In 1998, our goals include reaching a minimum of $200 million in annualized premium volume, and adding new – and expanding existing – distribution systems, such as our toll-free Call Centre service open seven days a week until 11 pm. From the Call Centre, we will both sell insurance and service our customers when problems arise.

Our success to date has been due to a solid combination of strategy, high skills and hard work on the part of our employees, our executive team and our Board members.

As our volume increased in large increments throughout the year, everyone in the company became a change agent. Their positions and duties changed regularly. For them to maintain service levels and concurrently handle such growth clearly shows the commitment of each and every person in our organization.

I thank each and every one of them for their contribution.

I also thank our shareholders for their continued faith in Canada Brokerlink.

Sincerely,

Rick Grass
President & CEO

" ... during 1997 your company ... became Canada's third largest insurance brokerage firm. By April, 1998, we had become number two."

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis by management of the financial condition and operating results of Canada Brokerlink Inc. provide an overview and should be read in conjunction with the consolidated financial statements and accompanying notes.

Reporting Period

The Corporation changed its fiscal year end from August 31 to December 31, commencing with the December 31, 1996 reporting period, in order to coincide with reporting periods of other companies in the Insurance Industry. Therefore, the results of operations are for the year ended December 31, 1997 with comparative figures for the four month period ended December 31, 1996 and the year ended August 31, 1996. The Balance Sheet represents the financial position of the Corporation as at December 31, 1997 with comparative figures as at December 31, 1996 and August 31, 1996.

Overview

The financial position as at December 31, 1997 and the results of operations of the Corporation for the year ended December 31, 1997 reflect the results of the Corporation during its first full year of operations as a public company acquiring and operating insurance brokerage operations. The financial position and results of operations of the Corporation for the four month period ended December 31, 1996 and for the year ended August 31, 1996 primarily reflect the operations of the Corporation while it was still a private company operating member and managed brokers and are therefore not comparable with current operations.

During the year ended December 31, 1997, the Corporation acquired seventeen independent insurance brokerages, a Call Center, a Life and Financial Services operation and a Mutual Fund dealership. The number of member, managed and owned brokerage locations grew from 25 to 48 throughout Alberta and Ontario. Since all of the brokerages were purchased at various times during the year, the results of operations do not reflect the total income or expenses of the subsidiaries acquired or the full benefit of integrating and consolidating all of the various operations. The full impact of the revenues and profitability of the subsidiaries acquired and the synergies created by centralizing operations will not be reflected in the results of the Corporation until during the 1998 and 1999 fiscal years.

" The Corporation's annualized premium volume has grown from $18.3 million ... to approximately $101 million."

In June 1997, the Corporation completed a private placement totaling $14.8 million. The funds raised were a combination of $9 million subordinated convertible debentures, convertible at $2.25 per share, and $5.8 million of special warrants which were qualified by a prospectus in October 1997. The Corporation also converted $1.4 million of long term debt to equity at $2.25 per share in October 1997.

The Corporation's annualized premium volume has grown from $18.3 million when the Corporation went public on December 19, 1996, to approximately $101 million as at December 31, 1997, a growth of 452%.

Results of Operations

Revenues

Revenues include commissions and other income. The Corporation receives a commission from insurance companies as a percentage of written premiums which averages approximately 15%. The Corporation also receives contingent profit revenues and volume bonuses from insurance companies, mutual fund commissions, life insurance commissions and revenues from related financial services.

Revenues totaled $8,675,899 for the year ended December 31, 1997, compared to $1,016,340 for the four month period ended December 31, 1996, and $1,687,425 for the year ended August 31, 1996, a growth of over 414%. Based on the premiums in place of $101 million as at December 31, 1997, the "run rate" or annualized revenues from property and casualty insurance for the year ended December 31, 1998 is expected to be in excess of $15 million, not including acquisitions to be made during 1998 or revenues from other sources. During 1998, the Corporation will continue to develop and expand its financial products to include additional revenues from life, mutual funds and financial services.

Expenses

Expenses include general and administrative, producer commissions, amortization of intangible assets, interest on long term debt, depreciation of capital assets, and annual accretion of discount on convertible debentures.

General and administrative expenses as a percentage of revenues increased from 64% for the four month period ended December 31, 1996 to 68% for the year ended December 31, 1997 as a result of the costs incurred in developing and setting up the necessary management, infrastructure and overhead during 1997 to be able to manage the growth anticipated during 1997 and 1998. This percentage is expected to decrease when taking into consideration the expected acquisitions to be made during 1998 and the savings and synergies expected in centralizing operations and integrating brokerages acquired.

Producer commissions represent the commissions that are paid to member and managed brokers, which is a percentage of the revenues generated by them and brokers' share of contingent profits. Since the Corporation is acquiring more brokerages with larger premium volumes than those of member and managed brokers, the commissions paid to producers as a percentage of revenues will decrease proportionately. For the year ended December 31, 1997, producer commissions were 19% of revenues, compared to 40% for the four month period ended December 31, 1996, and 51% for the year ended August 31, 1996. The Corporation expects producer commissions as a percentage of revenues to decrease to below 10% for the year ended December 31, 1998. The Corporation presently has approximately $6 million of premiums under member broker agreements and approximately $5 million under managed broker agreements.

Amortization of intangible assets represents the amortization of both goodwill acquired when Canada Brokerlink purchases an insurance brokerage and purchased customer accounts. Acquisitions are made by purchasing either the shares of a brokerage or its book of business, that being its client files. The goodwill amortized results in an expense on the income statement but does not reduce the operating cash flow. Management is of the opinion that the value of the client lists acquired will increase in value as the clients will be exposed to additional insurance companies, more products and services and a cross marketing environment for other sources of revenue. The annual accretion of discount on convertible debentures is also an expense on the income statement but does not reduce the operating cash flow and represents the amortization of the difference between the recorded amount and the face value of the convertible debentures, which is being charged to income on an effective yield basis.

The interest on long-term debt is the interest incurred on debt primarily utilized to acquire insurance brokerages. The Corporation expects to continue to moderately leverage its position for acquisitions.

Net Income

The net income for the year ended December 31, 1997 was $91,159 or $.01 per share, compared to a net loss for the four month period ended December 31, 1996 of $67,602 and a net loss of $42,204 for the year ended August 31, 1996. For the year ended December 31, 1997, operating cash flow (net income plus depreciation, amortization and deferred income taxes) was $747,438 or $.04 per share and EBITDA (earnings before interest, tax, depreciation and amortization) was $1,098,546 or $.06 per share, compared to a deficit of operating cash flow and EBITDA of $34,159 for the four month period ended December 31, 1996 and $4,588 for the year ended August 31, 1996.

" Net income for the year was ... $.01 per share ... operating cash flow was ... $.04 per share and EBITDA was ... $.06 per share."

Financial Condition

Balance Sheet

Total assets increased to $33,516,390 as at December 31, 1997 from $5,307,485 as at December 31, 1996 and $1,431,255 as at August 31, 1996. The Corporation funds its acquisitions through a combination of issuing shares, debt, vendor take back and cash. This resulted in substantial changes to the balance sheet, primarily to intangible assets and shareholders' equity. Total shareholders' equity increased to $16,332,216 from $2,590,816 as at December 31, 1996 and $544,700 as at August 31, 1996.

" (We are) aware of the issues associated with ... existing computer systems as the Year 2000 approaches."

Working Capital

Working capital increased to $4,564,783 as at December 31, 1997 from a $12,401 deficit as at December 31, 1996 and a $213,380 deficit as at August 31, 1996 as a result of the funds raised in the Initial Public Offering and in the June 1997 private placement. The working capital ratio increased to 1.59 to 1 as at December 31, 1997 from .99 to 1 as at December 31, 1996 and .75 to 1 as at August 31, 1996. The $3,549,869 cash held in escrow as at December 31, 1997 is being utilized by the Corporation for further acquisitions.

Capital and Intangible Assets

During the year, the Corporation purchased $733,589 of capital assets, primarily computer equipment and hardware, to expand and improve its computerized networking platform. The Corporation also received $749,820 of capital assets when it acquired its subsidiaries. Intangible assets represent the goodwill acquired by way of purchased client lists and by the excess of costs over the fair value of identifiable net assets of shares acquired. The Corporation is essentially acquiring the goodwill of the brokerage which is then amortized on a straight line basis for periods ranging from 15 to 25 years. Details of the capital assets purchased and intangible assets acquired are set out in notes 4, 5 and 10 to the financial statements.

Long-Term Debt

The increase in long-term debt during the year was primarily as a result of vendor take backs on acquisitions, and the issuance of the $9 million of subordinated convertible debentures. The convertible debentures are recorded at the amount of the proceeds received less the amount attributed to the conversion feature which is included in shareholders' equity. The difference between the recorded amount and the face value of the convertible debentures is charged to earnings and included in expenses as annual accretion of discount on convertible debentures on an effective yield basis. The details of the long-term debt are set out in notes 6 and 7 to the financial statements.

Changes in Financial Position

The cash flow provided from operations, excluding changes in non-cash operating working capital amounted to $747,438 compared to a deficit of $34,159 for the four month period ended December 31, 1996 and $4,588 for the year ended August 31, 1996. The Corporation acquired brokerages and operating assets totaling $13,933,720 as detailed in note 10 to the financial statements. Cash provided from financing activities in the net amount of $20,520,933 was primarily from the issuance of common shares, from the issuance of shares to vendors of the brokerages acquired, from vendor take backs on acquisitions and from the issuance of the convertible debentures.

Disclosure Regarding Year 2000

The Corporation is aware of the issues associated with the programming code in some existing computer systems as the year 2000 approaches. The issue is whether computer systems will properly recognize date sensitive information when the year 2000 changes. Systems

"Management is committed to building on the foundation ... with brokerages that will be profitable, create synergies and savings in economies of scale..."

that do not properly recognize such information could generate erroneous data or cause a system to fail. The year 2000 issue is specially prevalent in the insurance industry and affects the industry earlier than most businesses. This is due to the fact that by November 1998 insurance companies and brokerages will be issuing renewal documents for insurance policies dated January 1, 1999 with an expiry date of January 1, 2000. The Corporation is conducting a comprehensive review of its computer systems to identify the systems that could be affected by the year 2000 issue. The Corporation utilizes an insurance brokerage software package called Agency Manager that is upgraded regularly by the software developer, Applied Systems. Agency Manager has recently released TAM Version 6.0 of the software which has been designed to be Year 2000 compliant. However, due to the complexity and nature of the Year 2000 issue and TAM's operation and functionality being based upon Microsoft products, Agency Manager and Applied Systems will not extend any contractual warranties relating to the Year 2000.

The Corporation has also contacted some of its major insurance suppliers and financial institutions to determine whether they are either Year 2000 compliant or what plans they have in place or are being developed to ensure that they will be in compliance by the year 2000. The Corporation will continue to monitor this Year 2000 issue during 1998 and take the necessary steps to ensure that its computer systems are ready for the Year 2000.

Since the Corporation's software supplier and the insurance companies that the Corporation deals with are taking appropriate steps to be Year 2000 compliant, the Corporation at this point in time does not expect the amount required to be expensed over the next two years to have a material effect on its financial position or results of operations. However, there can be no assurance that the systems of other companies on which the Corporation's systems rely will be year 2000 compliant and the Corporation cannot estimate whether or not that will have a material impact on its operations.

Summary

An aggressive acquisition and integration strategy like Canada Brokerlink's is difficult to achieve and carry out without the drive, hard work, dedication and determination required from many of the employees at Canada Brokerlink. Management would like to take this opportunity to thank the accounting team and integration personnel for their continued efforts in integrating the acquired brokerages and for their continued involvement in creating and developing Canada Brokerlink into the premier operator and acquirer of insurance brokerages in Canada.

The Corporation intends to continue its aggressive growth strategy of acquiring independent insurance brokerages and of adding member and managed brokers and intends to fund future acquisitions through a combination of cash, debt and treasury stock and by public and private offerings of its securities. Management is committed to building on the foundation it has established with brokerages that will be profitable, create synergies and savings in economies of scale and provide value added profitability to the Corporation and its shareholders.

L.M. (Mike) Santiago, C.A.
Vice President & Chief Financial Officer

Henry (Bud) Hauck, C.A.
Vice President Finance

Our long-term goals for premium volume, geographical location and breadth of services are whole orders of magnitude greater than our current size and scope.

To achieve those goals requires a board of directors with deep knowledge of the insurance and finance industries, intimate understanding of the securities marketplace, broad experience, razor-sharp strategic skills, wide contact networks and a clear vision of what is truly possible.

Against those requirements, we are proud to introduce our board of directors to you ...

Board of D

Rick Grass
(Chairman/President/CEO)

- Former owner, Calgary Insurance Group
- Founder, Canada Brokerlink Inc. (pre-IPO)
- Former Branch Manager, Western Canada, SAFECO Insurance
- Economics graduate with a deep, longtime involvement in computers and data communication

Laurence Decore

- Lawyer and businessman
- Former Mayor of Edmonton
- Former Leader of the Alberta Liberal Party
- Co-founder of QCTV Ltd., an Edmonton/Northern Alberta cable company later purchased by Videotron
- Successful developer of numerous hotels, apartments, shopping centres, subdivisions, etc.
- Director of a number of other companies

Terry Gibson

- Past Vice President and Director of Wood Gundy Inc.
- Portfolio Manager, Nesbitt Burns Inc.
- Director of a number of other companies

Board of Directors

Charles B. Loewen

- Founder of the brokerage firm Loewen, Ondaatje, McCutcheon and Company Ltd. of Toronto
- Director of a number of companies including The Loewen Group Inc., which his then firm took public
- President of Corporate Services International Inc.

Rt. Hon. Don Mazankowski

- Former Deputy Prime Minister and Minister of Finance
- During his 25-year political career, he also served as President of the Queen's Privy Council, Minister of Transport, Minister Responsible for the Canadian Wheat Board, Government House Leader, President of the Treasury Board, Minister of Agriculture and Minister Responsible for Privatization and Regulatory Affairs
- Director of a number of large Canadian companies

Lane McKay

- Canadian Risk Manager with experience working with several of Canada's large international insurance brokerages
- Former Account Executive for National and International Commercial Accounts
- Highly skilled negotiator

Gerry E. Meinzer

- Former President, Board of Trade of Metro Toronto
- Former President/CEO, Real Time Datapro (now Teleglobe Insurance Systems), a computer services firm specializing in general insurance systems
- President of PMP Associates, a merchant bank specializing in high technology
- Chairman of TRITECH Financial Systems Inc.
- President Emeritus of Smart Toronto Inc.
- Director of the Greater Toronto Airport Authority and several other institutions

Our management team provides the company with solid direction that, in virtually every case, is founded upon extensive personal experience in the insurance industry.

Photos have not been included on this page for the three members of our executive team who are also directors:

Rick Grass - President & CEO

Laurence Decore -
Corporate Secretary,
VP Communications

Lane McKay - VP Acquisitions

The balance of our team consists of:

L.M. (Mike) Santiago, C.A.
VP & CFO

Former co-owner, Wessex Insurance Services, Calgary

Henry (Bud) Hauck, C.A.
VP Finance

Former President of Gescan Ltd., former Treasurer of a national cable supplier

John Dewit
VP & Chief Operating Officer

Former co-owner, Wessex Insurance Services, Calgary

Larry Heron
Regional VP Alberta

Former owner, Heron-Siegel Insurance Services, Edmonton

Jon Ouellette
Regional VP Ontario

Former co-owner, The Sutcliffe Associates, Kenora

Mark Kotris
President, Valuewise Investment Planners Inc.

Former owner, Valuewise Investment Planners Inc.

The Insurance Industry: Consolidation

The insurance industry in a nutshell

About 75% of Canadian property and casualty insurance policies are written by small, independent insurance brokerages with total annual premiums between $1 and $3 million.

Brokers write those policies on behalf of large insurance companies, and it is those companies who assume the risk. Insurers pay the broker a commission of about 15% of customers' premiums. Out of that commission, the broker must pay all expenses, including the big three: staff, rent and automation.

It's an immense market

Canadian property and casualty insurance policy premiums amount to nearly $23 billion a year. Those policies are written by more than 7,000 independent insurance brokers operating at over 20,000 locations.

Because brokerage consolidation is a relatively new development, to date only about 3% of premiums are written by the four major brokerage consolidators (of which Brokerlink became the second largest by April, 1998). Just a year ago, consolidators had only 1% of the market, an indication of both the high interest amongst brokerage owners in selling to consolidators, and the fact that consolidators have only just scratched the surface of the market.

Thus, there is a huge potential market for consolidators, one from which Canada Brokerlink Inc. is committed to carving a very large market share.

Brokerage consolidators: Now we're number 2!

In the last few years, major restructuring in the insurance industry has combined with other factors to place immense pressures on independent brokers. Increasingly, they feel their ability to remain profitable is threatened.

Concurrently, many of the same forces that threaten the small broker have presented brokerage consolidators with an opportunity for growth, profitability and a very bright future.

Canada Brokerlink Inc. is one of these firms. We strategically purchase independent insurance brokerages, then integrate them into centralized administrative, financial and data communications systems that make them much more cost-efficient. This is known as brokerage consolidation.

When we began acquiring brokerages in December of 1996, our annualized premium volume was $18.3 million. By April, 1998, brokerage acquisitions in both Alberta and Ontario had produced an annualized volume of $164 million, an increase of 796%.

We now employ 50 people in our Calgary head office, and a further 200 people in our remaining 34 owned brokerage outlets in Alberta and Ontario. On a percentage-of-premium basis, we provide various services to a further 23 'managed' and 'member' brokerages.

Now Canada's second-largest insurance brokerage firm, we expect to become the country's largest consolidator in the near future.

Changes in the insurance industry: working to our advantage

Canada Brokerlink's great potential grows directly from the insurance industry's quickly evolving dynamics, some factors of which include:

- It is feared that Canadian banks will eventually win the legal right to sell insurance at their branches in direct competition with insurance companies and brokers.
- Preparing for bank competition, insurance companies have consolidated to carve out room for more competitive pricing; the result is fewer insurers.
- There is a strong trend for insurance companies to focus on a narrower range of insurance 'lines' in which they have higher margins because of their particular skill or experience, thus reducing a broker's ability to offer a broad range of coverage types.
- Insurance companies are constantly increasing the minimum annual premium volumes required of their affiliated independent brokers, forcing brokers to represent even fewer insurers.
- Intense and highly expensive demands are being placed by insurance companies on their affiliated independent brokers to install or upgrade to computer systems capable of interacting with the insurers.

These massive changes, combined with natural inflation, have created profound pressures on small, independent brokers. In time, many of them will fail, largely because they cannot grow large enough to create the cost-efficiencies that can allow them to compete in the emerging 'new' insurance industry.

On top of this, we believe that many brokerage owners are at an age where they are planning in earnest for retirement. Concurrently, they are helplessly watching the sale value of their lifelong businesses drop steadily as restructuring progresses and the aforementioned pressures continue to bear down on them.

The only choice for many brokers is to be acquired by someone else, and that is one of the major factors that has helped to create such an opportunity for Canada Brokerlink.

What's in consolidation for the customer?

A large brokerage firm like Canada Brokerlink offers customers a number of advantages:

- Wider choice – Since we write policies for a large number of the world's major insurance companies, our customers have greater choice, which often results in reduced costs.
- More types of coverage – Our size allows us to write policies for many specialized types of coverage in which smaller brokerages lack either expertise or a relationship with an insurer who will write the kind of special policy a customer needs.
- Greater access – Because we are so tightly tied together by our Intranet, customers in one part of the country who are in need of special insurance expertise can access it easily, regardless of which Brokerlink office they are dealing with.
- More effective advocacy – When we're dealing with an insurer over a problem one of our customers is having with a claim or a quote, the sheer magnitude of our volume with that insurer often gives us an influential edge.
- Many ways to deal with us – Our customers can deal with us in the traditional way, face-to-face or over the phone with a customer service representative at a local Brokerlink office. They can insure themselves using our 1-888 toll-free DirectLink call centre. And they can access coverage through GroupLink insurance facilitated by their employer, association or union.
- Other financial services – Our financial services division, Valuewise Investment Planners Inc., provides financial planning consulting and income tax preparation services, as well as access to a variety of specific products such as RRSPs and mutual fund investments from some of the largest fund companies in the world.

" ... there is a huge potential market for consolidators, one from which Canada Brokerlink Inc. is committed to carving a very large market share."

Canada Brokerlink. Our Key Strengths

Knowledge

Our belief in Canada Brokerlink's future stems from the depth of our knowledge of the insurance industry. Our senior management team has extensive experience in the industry, both in management positions within large insurers and in independent brokerage ownership roles.

Years ago, under the leadership of our President & CEO Rick Grass, our corporate predecessor, Calgary Insurance Group, developed leading expertise in brokerage consolidation and the computer Intranet required to make consolidation cost-effective.

We are insurance professionals in the business of insurance. As we grow, therefore, our major challenge is to cope with increased size. We learned insurance long ago.

Vision

Our Board has the magnitude of experience, the breadth of business involvement and the extensive network of contacts necessary to give our company a clear vision of what it must do today to become what it wants to be tomorrow. The directors have often helped us make the right decisions on matters that involved issues like achieving and maintaining high standards, protecting the integrity of our reputation, and maintaining focus on our key strengths.

Integration

Centralizing many administrative, financial and other functions reduces costs considerably, so the key to profitability for a brokerage consolidator is rapid, effective integration of newly-acquired brokerages.

We are the only Canadian brokerage consolidator which operates an Intranet computer data communications system. Our system is critical to our ability to integrate efficiently.

Brokerlink's proprietary Intranet computer network - our key centralization/integration tool - is so advanced that we believe it to be unique in the insurance industry. The effect of our integrated systems is lower administrative costs per dollar of premium.

Our integrated systems mean less paperwork at the brokerage outlet level, resulting in more productive sales time for our sales staff. Any increase in premium volume that occurs as a result of the ability of sales staff to focus on sales instead of administration is a bonus to our return on investment.

Technical Excellence

Many of the brokerages we have acquired have developed special insurance expertise, either as a result of their previous owner's special interests, or the nature of their local economies. One brokerage, for example, knows forestry industry insurance inside out. Another has developed an excellent package of products for the restaurant industry.

Our integration allows us to market these specialties from every office in our network, because all of our customer service representatives can so easily access the brokers who have the specialized knowledge.

As we grow, these "National Centres of Technical Excellence" will cover more and more specialty insurance areas, allowing our offices everywhere to sell to a continuously expanding horizon of new customers.

"In the 'new' insurance industry, customers call the shots ... To meet this challenge, Brokerlink offers customers several ways to access our services."

Customer Focused - Customer Friendly

In the 'new' insurance industry, customers call the shots. They decide how and when they will buy insurance. They have clear expectations of customer service, discounts, added value products and payment options. Ignoring this reality risks the very speedy loss of customers to more customer-focused competitors.

To meet this challenge, Canada Brokerlink offers its customers several ways in which to access our services, and in time we will expand into other 'distribution channels'. We will know the exact costs of operating each channel, and we'll be in a position to pass along any savings to our customers and become that much more competitive.

- Customers who are motivated to deal with us in the traditional consultative way, face-to-face with our customer service representatives, can do so.
- Those who are more attracted by the geographical convenience of their insurance broker can choose to do business at our nearby retail outlets.
- Our group sales operation allows employees and members of various companies and associations to purchase insurance coverage at a discount - by payroll deduction, through the mail or using toll-free telephone access.
- Consumers can also buy insurance from us directly from a 1-888 call centre operation, in which the initial contact is made through mass media advertising. This service allows them the option to buy outside of normal business hours, and it offers several payment options, including the use of credit cards.
- We have taken the first steps toward one form of 'bundling' insurance products with the offer of limited free travel insurance with the purchase of home insurance. In the future, we will examine our options in another form of bundling, which would see insurance coverage tied to other kinds of financial services such as various forms of leasing and mortgages.
- As well, as our business continues to grow, we will some day offer customers the option to obtain quotes and purchase our services through our Internet World Wide Web site (www.brokerlink.ca).

Major Developments, 1997

Acquisition/Expansion

During the calendar year 1997, Canada Brokerlink quadrupled its volume, growing from 27 owned, managed and member brokerages and an annualized volume of $24.5 million to 48 brokerages and an annualized volume of $101 million.

Key to our growth strategy was entry into the lucrative Ontario market from Northwestern Ontario, followed by moves into Northern, Central and Southern regions of the province.

Our purchase of key members of The Sutcliffe Group of brokerages in Thunder Bay, Kenora, Red Lake and Sioux Lookout, with a collective volume of $21.1 million annually, marked our entry into Ontario. During the year, we purchased more brokerages in Northwestern and Northern Ontario, as well as a major, $12.8 million premium volume Toronto firm, Biggs Evans Phillips & Martin Insurance Brokers, to act as our Metro Toronto anchor location.

We also grew in Alberta, securing an Edmonton anchor brokerage and purchasing other brokerages in a number of locations where we needed to expand, or establish, our presence.

As the year progressed, so did our reputation amongst independent brokers. There was no shortage of brokerages whose owners wished to sell. Quite quickly, our acquisition team found themselves dealing with owners of significantly larger brokerages than they had been able to approach earlier in the year.

An agreement effective June 1, 1998 had been reached for the purchase of Ontario's second largest brokerage firm. W. Bruce Martin Insurance Limited has eight offices in Northern, Central, and Southern Ontario, and an annual premium volume of $50 million. During 1998, our acquisition goals are threefold:

- Where we already have anchor brokerages, we will increase our presence with the purchase of brokerages whose owners wish to retire. Most of these will be consolidated into the anchor brokerages to create cost efficiencies.
- We will continue to seek new anchor locations in regions of Alberta and Ontario which we have strategically targeted for market entry.
- We will seek major acquisitions in provinces where we are not currently present and in which we believe there is the greatest opportunity for profit.

"The investment community's chief reactions to Brokerlink are confidence in our executive team ... and appreciation of the priority we give to integrating acquisitions into our system."

Integration/Staff Training

Aside from the creation of effective, centralized systems with which we can quickly integrate our acquisitions, we are highly aware that our staff must operate as a unified team. Each acquisition, therefore, presents us with the challenge of ensuring that Brokerlink's 'culture' is adopted by our new employees.

To meet that challenge, we created what we call *Brokerlink University*. This program both ensures that our corporate culture is adopted by newly-acquired brokerage employees, and upgrades all of our employees' skills and knowledge.

Key areas that Brokerlink University emphasizes include primary focus on the customer, sales processes and techniques, and the workings of our internal systems.

In addition to Brokerlink University, we also operate an extensive, ongoing series of field seminars at which employees receive the latest information appropriate to their level of responsibility.

Investor Relations

Members of our executive focused a great deal of effort during 1997 on introducing Canada Brokerlink to the Canadian investment community, including pension and mutual fund portfolio managers as well as major investment brokerages and underwriters.

In June, 1997, we reached our first significant financing agreement, with MG Stratum Fund and its managers, McKenna Gale Capital Inc. of Toronto.

In early 1998, we were well into further negotiations on additional financing with two major Toronto investment dealers. By April 22, 1998, we raised an additional $22 million to be used for further acquisitions.

The investment dealers that assisted us have indicated that they will assign analysts to follow our company's progress.

The investment community's chief reactions to Brokerlink are confidence in our executive team because of its intimate knowledge of the insurance industry, and appreciation of the priority we give to integrating acquisitions into our system.

During 1998, we will make application for a listing on the Toronto Stock Exchange.

In order to ensure a constant focus on the investment community, we have created an Investor Relations unit managed by a senior member of our executive team. Investor Relations can be reached at 1-800-214-8230.

Major Developments, 1997

GROUPLINK

By the end of 1997, our group insurance division (GroupLink) was well on its way to full staffing and the completion of initial discussions with key insurers in preparation for field sales early in 1998.

At this printing, we are the broker of record to provide optional group insurance services to more than 75,000 employees and members of various companies, unions and associations.

DIRECTLINK
1-888-655-FAST

We have expanded the 1-888 call centre sales operation originally established by our Edmonton anchor. The extended-hours DirectLink service – now available throughout Alberta 7 am - 11 pm weekdays and 9 am - 5 pm weekends – allows customers to purchase insurance products over the phone 363 days a year. In future years, the service will be made available to customers in other areas of Canada.

Marketing

Aware that acquisitions are only one way in which we can increase annual premium volumes, we have taken key steps toward the development of a professional marketing program.

We have established a relationship with a significant Calgary advertising agency with a great deal of experience in every advertising market in Canada.

We intend to use a variety of media to establish a highly positive, dynamic identity in the marketplace and to find new customers.

1997
The Numbers

CANADA
BROKERLINK INC.

Management's Statement of Responsibility

The management of Canada Brokerlink Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Corporation.

The Corporation maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Corporation's audit committee is composed entirely of non-management directors and has and will be appointed by the Board of Directors annually. The committee has and will continue to meet periodically with the Corporation's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Corporation's independent auditors, KPMG Chartered Accountants, have examined the consolidated financial statements and their report follows.

Richard Grass, AIIC
President & CEO

L.M. (Mike) Santiago, C.A.
Vice President & CFO

Henry (Bud) Hauck, C.A.
Vice President Finance

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Canada Brokerlink Inc. as at December 31, 1997, 1996 and August 31, 1996 and the consolidated statements of operations and deficit and changes in financial position for the year ended December 31, 1997, the four months ended December 31, 1996 and the year ended August 31, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997, 1996 and August 31, 1996 and the results of its operations and the changes in its financial position for the year ended December 31, 1997, the four months ended December 31, 1996 and the year ended August 31, 1996 in accordance with generally accepted accounting principles.

KPMG.

Chartered Accountants
Calgary, Canada
March 13, 1998

CANADA BROKERLINK INC.

Consolidated Balance Sheets

	December 31, 1997	December 31, 1996	August 31, 1996
Assets			
Current assets:			
Cash	$ 1,618,468	$ –	$ –
Cash held in escrow (note 2)	3,549,869	900,000	–
Accounts receivable	6,753,227	1,040,536	547,396
Due from related parties (note 3)	-	117,617	6,535
Prepaid expenses and deposits	434,288	99,128	100,196
	12,355,852	2,157,281	654,127
Capital assets (note 4)	1,580,624	370,918	196,250
Intangible assets (note 5)	19,579,914	2,779,286	580,878
	$ 33,516,390	$ 5,307,485	$ 1,431,255
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 6)	$ –	$ 226,375	$ 19,660
Accounts payable and accrued liabilities	7,270,323	1,878,446	833,464
Current portion of long-term debt (note 6)	394,983	64,861	14,383
Current portion of convertible debentures (note 7)	125,763	–	–
	7,791,069	2,169,682	867,507
Long-term debt (note 6)	789,211	56,844	19,048
Convertible debentures (note 7)	8,513,894	445,000	–
Deferred income taxes	90,000	45,143	–
Shareholders' equity:			
Share capital (note 8)	15,684,489	2,734,248	620,530
Convertible debentures (note 7)	700,000	–	–
Deficit	(52,273)	(143,432)	(75,830)
	16,332,216	2,590,816	544,700
Commitment (note 11)			
Subsequent event (note 13)			
	$ 33,516,390	$ 5,307,485	$ 1,431,255

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director — Richard Grass, President & CEO

Director — Terry Gibson, Director, Audit Committee Chairman

CANADA BROKERLINK INC.

Consolidated Statements of Operations and Deficit

		Year ended December 31, 1997		Four months ended December 31, 1996		Year ended August 31, 1996
Revenues	$	8,675,899	$	1,016,340	$	1,687,425
Expenses:						
General and administrative		5,916,441		645,596		827,712
Producer commissions		1,660,912		404,903		864,301
Amortization of intangible assets		400,040		11,576		2,138
Interest on long-term debt		328,787		–		–
Depreciation of capital assets		273,703		21,867		35,478
Annual accretion of discount on convertible debentures		50,000		–		–
		8,629,883		1,083,942		1,729,629
Income (loss) before income taxes		46,016		(67,602)		(42,204)
Income taxes (note 9):						
Current		22,321		–		–
Deferred income tax recovery		(67,464)		–		–
		(45,143)		–		–
Net income (loss)		91,159		(67,602)		(42,204)
Deficit, beginning of period		(143,432)		(75,830)		(33,626)
Deficit, end of period	$	(52,273)	$	(143,432)	$	(75,830)
Net income (loss) per share:						
Basic and fully-diluted	$	0.01	$	(0.01)	$	(0.05)

See accompanying notes to consolidated financial statements.

CANADA BROKERLINK INC.

Consolidated Statements of Changes in Financial Position

	Year ended December 31, 1997	Four months ended December 31, 1996	Year ended August 31, 1996
Cash provided by (used in):			
Operations:			
Net income (loss)	$ 91,159	$ (67,602)	$ (42,204)
Items not involving cash:			
Depreciation and amortization	673,743	33,443	37,616
Annual accretion of discount on convertible debentures	50,000	–	–
Deferred income tax recovery	(67,464)	–	–
Cash flow from operations	747,438	(34,159)	(4,588)
Changes in non-cash operating working capital	(1,887,054)	314,823	(16,018)
	(1,139,616)	280,664	(20,606)
Investments:			
Acquisition of corporations and operating assets, net of bank indebtedness	(14,153,016)	(2,101,797)	(583,016)
Cash held in escrow	(2,649,869)	(900,000)	–
Acquisition of capital assets	(733,589)	(72,635)	(117,112)
Acquisition of investments, at cost	–	–	(2,000)
	(17,536,474)	(3,074,432)	(702,128)
Financing:			
Issue of Common Shares and Special Warrants	13,858,775	2,418,750	620,330
Issuance of convertible debentures, net of repayments	8,844,657	445,000	–
Common Share and Special Warrant issue costs	(908,534)	(305,032)	–
Increase (repayment) of long-term debt	(719,318)	74,468	29,686
Deferred financing costs	(672,264)	–	–
Due from related parties	117,617	(5,333)	40,708
Repayment of shareholders' loans	–	(40,800)	(7,500)
	20,520,933	2,587,053	683,224
Increase (decrease) in cash position	1,844,843	(206,715)	(39,510)
Cash (bank indebtedness), beginning of period	(226,375)	(19,660)	19,850
Cash (bank indebtedness), end of period	$ 1,618,468	$ (226,375)	$ (19,660)
Cash flow from operations per share:			
Basic and fully-diluted	$ 0.04	$ (0.01)	$ (0.00)

See accompanying notes to consolidated financial statements.

General:

Canada Brokerlink Inc. (the "Corporation") was incorporated under the Alberta Business Corporations Act as Calgary Insurance Group (CIG) Ltd. on May 27, 1991. Pursuant to Articles of Amendment dated August 23, 1996, the name of the Corporation was changed to Canada Brokerlink Inc. The Corporation is engaged in the business of insurance product distribution through both owned brokerages and by providing insurance brokerage management services.

1. **Significant accounting policies:**

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries.

(b) Revenue recognition:

Commission revenue, relating to direct and agency billings, is recognized in its entirety as of the latter of the effective date of the insurance policy or the transaction date. Subsequent commission adjustments, such as policy endorsements or cancellations, are recognized upon notification from the insurance company. Producer commissions are accrued when the related commission revenue is recognized. Producer commissions are commissions earned by member and managed brokers.

(c) Capital assets:

Capital assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful life of the assets. One half of the stated rate is taken in the year of acquisition to reflect partial use. The stated methods and rates are as follows:

Asset	Method	Rate
Computer equipment and software	Declining balance	30%
Office equipment	Declining balance	20%
Leasehold improvements	Straight-line	Term of lease

(d) Financing costs:

Financing costs associated with the issue of long-term debt and convertible debentures are deferred and amortized over the term of respective debt or debenture. Deferred financing costs are included as part of intangible assets.

1. **Significant accounting policies (continued):**

(e) Intangible assets:

Intangible assets are stated at cost less accumulated amortization and principally represent purchased customer accounts and the excess of costs over the fair value of identifiable net assets acquired (goodwill). Purchased customer accounts, which represent records and books of insurance that contain information on insurance policies and the related insured parties that is essential to policy renewals, are being amortized on a straight-line basis over their estimated useful lives, which range from 15 to 25 years. Goodwill is being amortized on a straight-line basis for periods ranging from 15 to 25 years.

The carrying value of intangible assets is periodically reviewed by management to determine if the facts and circumstances suggest that they may be impaired. In the insurance brokerage and agency industry, it is common for agencies or customer accounts to be acquired at a price determined as a multiple of the corresponding revenues. Accordingly, the Corporation assesses the carrying value of its intangible assets by comparison to a reasonable multiple applied to corresponding revenues and considers the operating cash flow generated by the corresponding agency division. Any impairment identified through this assessment may require that the carrying value of related intangible assets be adjusted.

(f) Convertible debentures:

Convertible debentures are recorded at the amount of proceeds received less the amount attributed to the conversion feature which is included as part of shareholders' equity. The difference between the recorded amount and the face value of the convertible debentures is charged to income and included in annual accretion of discount on convertible debentures on an effective yield basis.

(g) Measurement of uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Net income (loss) and cash flow from operations per share:

Net income (loss) and cash flow from operations per share are calculated using the weighted average number of Common Shares outstanding during the period. Fully diluted net income (loss) and cash flow from operations per share are calculated taking into account the dilutive effect of the stock options, convertible debentures and outstanding warrants.

2. Cash held in escrow:

At December 31, 1997 the Corporation had cash held in escrow totaling $3,549,869 (December 31, 1996 – $900,000; August 31, 1996 – $nil), the use of which is restricted to payment of the cash portion of the cost to acquire or integrate insurance brokerages, provided such brokerages meet certain criteria.

3. Related party transactions:

(a) During the year ended December 31, 1997 the Corporation purchased customer accounts from certain shareholders of the Corporation for total consideration of approximately $1,221,000 consisting of $60,002 cash, the issuance of 76,287 Common Shares at approximately $1.65 per share, assumption of long-term debt of approximately $1,000,000, and repayment of shareholder loans of approximately $35,000. The acquisition of the customer accounts was accounted for based upon the fair market value of the consideration rendered.

(b) Effective July 31, 1996 the Corporation purchased customer accounts from certain shareholders of the Corporation for total consideration of $157,016, consisting of $79,436 cash and the issuance of 705,268 Common Shares at approximately $0.11 per share.

4. Capital assets:

December 31, 1997	Cost	Accumulated depreciation	Net book value
Computer equipment and software	$ 1,341,909	$ 296,777	$ 1,045,132
Office equipment	506,106	75,064	431,042
Leasehold improvements	118,693	14,243	104,450
	$ 1,966,708	$ 386,084	$ 1,580,624
December 31, 1996			
Computer equipment and software	$ 329,440	$ 89,693	$ 239,747
Office equipment	141,406	22,688	118,718
Leasehold improvements	12,453	–	12,453
	$ 483,299	$ 112,381	$ 370,918
August 31, 1996			
Computer equipment and software	$ 229,523	$ 70,804	$ 158,719
Office equipment	57,241	19,710	37,531
	$ 286,764	$ 90,514	$ 196,250

5. Intangible assets:

December 31, 1997		Cost		Accumulated amortization		Net book value
Goodwill	$	14,973,293	$	242,839	$	14,730,454
Purchased customers accounts		4,348,111		103,715		4,244,396
Deferred financing costs		672,264		67,200		605,064
	$	19,993,668	$	413,754	$	19,579,914
December 31, 1996						
Goodwill	$	1,705,913	$	10,021	$	1,695,892
Purchased customers accounts		1,087,087		3,693		1,083,394
	$	2,793,000	$	13,714	$	2,779,286
August 31, 1996						
Goodwill	$	426,000	$	1,562	$	424,438
Purchased customers accounts		157,016		576		156,440
	$	583,016	$	2,138	$	580,878

6. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

The Corporation entered into a new banking arrangement effective December 31, 1997 with a Canadian chartered bank. The arrangement provides for the availability of the following credit facilities: i) a $500,000 demand revolving operating line, bearing interest at the bank's prime rate plus 1/4% per annum, and secured by a general security agreement and general assignment of book debts; ii) a $500,000 revolving demand loan for equipment with a maximum amortization period of 36 months, bearing interest at the bank's prime rate plus 1 and 1/2% per annum, and secured by promissory notes and chattel mortgages on equipment; and iii) a $3,000,000 non-revolving demand or fixed rate term loan for acquisitions (maximum fixed rate term loan option is limited to $1,000,000), bearing interest at the bank's prime rate plus 1 and 1/4%, and secured by promissory notes.

Year ended December 31, 1997, four months ended December 31, 1996
and the year ended August 31, 1996

6. Bank indebtedness and long-term debt (continued):

(b) Long-term debt:

	December 31, 1997	December 31, 1996	August 31, 1996
Promissory notes, unsecured, repayable in monthly instalments of approximately $27,000 and bearing interest at rates ranging from 5% to 10% per annum payable monthly.	$ 670,234	$ 79,136	$ –
Bank term loans, repayable in monthly instalments of approximately $15,000 principal plus interest at the bank's prime rate plus 1.5% per annum payable monthly, and secured by a general security agreement covering all of the assets of the Corporation.	513,960	42,569	33,431
	1,184,194	121,705	33,431
Less current portion	(394,983)	(64,861)	(14,383)
	$ 789,211	$ 56,844	$ 19,048

The Corporation is required to make the following approximate annual principal repayments:

1998	$ 394,983
1999	282,491
2000	266,670
2001	117,796
2002	72,563
Thereafter	49,691
	$ 1,184,194

7. Convertible debentures:

	December 31, 1997	December 31, 1996	August 31, 1996
Convertible subordinated debentures, bearing interest at 9.5% per annum, payable quarterly, and maturing in full on June 13, 2002. Each debenture is convertible, by the holder, into Common Shares of the Corporation at a conversion price of $2.25 per share until maturity. Each debenture is convertible, by the Corporation, from December 13, 1998 to maturity, at a conversion price of $2.25 per share if the Corporation meets certain criteria. The debentures are secured by an assignment of various insurance policies on officers of the Corporation and a subordinated position on all assets of the Corporation.	$ 9,000,000	$ –	$ –
Convertible subordinated debentures, unsecured, bearing interest at 6% per annum payable monthly, principal repayable in 2 equal annual instalments of $125,763 in respect of each year on September 1st of 1998 and 1999, convertible into Common Shares of the Corporation at the option of the holder at any time at the conversion price of $2.50 per share and is redeemable by the Corporation after the Common Shares have traded for 20 consecutive trading days at a price equal to or greater than $4.00 per share.	251,526	–	–
Convertible subordinated debenture, unsecured, bearing interest at 8% per annum payable monthly, principal repayable in 1 annual instalment in respect of the calendar year on November 1st of 1999, convertible into Common Shares of the Corporation at the option of the holder at any time at the conversion price of $4.00 per share.	38,131	–	–
Convertible subordinated note, unsecured, bearing interest at 4.494% per annum payable annually and due in full on January 1, 2002	–	445,000	–
	9,289,657	445,000	–
Less equity component	(700,000)	–	–
Add current period's annual accretion of discount on conversion feature	50,000	–	–
	8,639,657	–	–
Less current portion	(125,763)	–	–
	$ 8,513,894	$ 445,000	$ –

7. Convertible debentures (continued):

The Corporation is required to make the following approximate annual principal repayments:

1998	$	125,763
1999		163,894
2000		–
2001		–
2002		9,000,000
	$	9,289,657

8. Share capital:

(a) Authorized:

(i) Unlimited number of voting Common Shares

(ii) Unlimited number of non-voting Preferred Shares

(b) Issued:

	Year ended December 31, 1997		Four months ended December 31, 1996		Year ended August 31, 1996	
	Number	Amount	Number	Amount	Number	Amount
Common Shares:						
Beginning of period	15,545,268	$ 2,734,248	9,920,268	$ 420,530	200	$ 200
Issued on acquisition of brokerages and operating assets (note 3 and 10)	3,446,774	6,270,044	1,250,000	1,000,000	3,405,268	366,580
Exercise of Special Warrants	3,834,235	5,800,550	875,000	218,750	–	–
Issued on conversion of debt	634,445	1,427,501	–	–	–	–
Issued on exercise of options	901,700	360,680	–	–	–	–
Issued on initial public offering	–	–	3,500,000	1,400,000	–	–
Issued pursuant to a private placement	–	–	–	–	215,000	53,750
Share conversion	–	–	–	–	6,299,800	–
End of period	24,362,422	16,593,023	15,545,268	3,039,280	9,920,268	420,530
Special Warrants:						
Beginning of period	–	–	800,000	200,000	–	–
Issued pursuant to public offering	3,834,235	5,800,550	–	–	–	–
Issued pursuant to private placements	–	–	75,000	18,750	800,000	200,000
Exercise of Special Warrants	(3,834,235)	(5,800,550)	(875,000)	(218,750)	–	–
End of period	–	–	–	–	800,000	200,000
Share and warrant issue costs		(908,534)		(305,032)		–
		$15,684,489		$ 2,734,248		$ 620,530

8. Share capital (continued):

(c) Stock options and warrants:

Effective August 27, 1996, the Corporation authorized a stock option plan. Pursuant to the plan, ten percent of the total issued Common Shares may be reserved for issuance to the directors, officers, employees and consultants of the Corporation.

The changes in outstanding options and warrants were as follows:

	Options	Warrants
Outstanding, August 31, 1996	–	–
Issued	1,725,000	–
Outstanding, December 31, 1996	1,725,000	–
Issued	1,143,423	795,423
Exercised	(901,700)	(563,423)
Expired/Cancelled	(10,000)	–
Outstanding, December 31, 1997	1,956,723	232,000

(i) The options outstanding as at December 31, 1997 entitle the holder of each option to acquire one Common Share at prices ranging from $0.40 to $2.00 per share and expire at various dates until May, 2002. In addition, 16,400 of the options outstanding at December 31, 1997 entitle the holder, upon exercise, to 8,200 warrants. Each warrant entitles the holder to acquire one Common Share at prices ranging from $1.80 to $2.00 per share and expire at various dates until June 1999.

(ii) The warrants outstanding as at December 31, 1997 entitle the holder of each warrant to acquire one Common Share at prices ranging from $1.50 to $2.00 per share and expire at various dates until October 28, 1999.

9. Income taxes:

The provision for income taxes differs from the result that would have been obtained by applying the combined federal and provincial income tax rate for the following reasons:

	Year ended December 31, 1997	Four months ended December 31, 1996	Year ended August 31, 1996
Effective tax rate	44.6%	44.6%	44.6%
Basic rate applied to income (loss) before income taxes	$ 20,500	$ (30,200)	(18,800)
Large corporations tax	22,321	–	–
Non-deductible amortization of intangible assets	114,700	–	–
Recognition of previously unrecorded income tax benefits	(244,364)	(9,100)	–
Unrecognized benefit of losses	–	32,200	7,900
Other non-deductible expenses	41,700	7,100	–
Small business rate reduction	–	–	10,900
	$ (45,143)	$ –	$ –

9. Income taxes (continued):

As at December 31, 1997 the Corporation had income tax losses aggregating approximately $1,513,000 available to reduce income for income tax purposes in future years, the income tax effect of which has not been recognized in these financial statements. These losses expire in varying amounts from the year 1999 to 2004.

Corporate tax returns are subject to assessment by Revenue Canada in the normal course of business. The result of any assessments will be accounted for as a charge to net income (loss) in the period in which they are realized.

10. Acquisition of corporations and operating assets:

(a) During the fiscal year ended December 31, 1997, the Corporation acquired all of the outstanding shares of Don Duholke Agencies Ltd., Valuewise Investment Planners Inc., Crossfield Insurance Brokers Ltd., 935970 Alberta Ltd. O/A Reliance Insurance Agencies, Sabina Insurance Ltd., Sutcliffe and Associates Group of Companies, Heron-Siegel Insurance Services Ltd., Unland Agencies Inc., Manitouwadge Insurance Brokers Limited., Richard R. Berday Insurance Broker Ltd., Terrace Bay Insurance Ltd., and Biggs Evans Philips & Martins Insurance Brokers Ltd. as well as the net operating assets of York & York Ltd., Roan Insurance Ltd., Markot Money Management Group Ltd., and W.J. Murfitt and Sons Insurance Agency Ltd.

These acquisitions have been accounted for by the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Corporation's financial statements from the effective date of purchase.

The details of the acquisitions are as follows:

Net assets acquired:		
Current assets	$	3,235,685
Purchased customer accounts		3,261,025
Capital assets		749,820
Goodwill		13,267,379
Long-term debt		(1,781,807)
Accounts payable and accrued liabilities		(4,466,765)
Deferred income taxes		(112,321)
Net non-cash assets		14,153,016
Less bank indebtedness		(219,296)
	$	13,933,720
Consideration rendered:		
3,446,774 Common Shares at prices ranging from $1.50 to $2.50 per share	$	6,270,044
Convertible debentures		289,657
Long-term debt		1,733,059
Cash		5,640,960
	$	13,933,720

10. Acquisition of corporations and operating assets (continued):

(b) Effective December 31, 1996, the Corporation acquired all of the outstanding shares of Wessex Insurance Services Ltd., Jepson Insurance Services Ltd. and Lou Gobel Insurance (1985) Ltd. as well as the net operating assets of Goodhew & Milgate Insurance Ltd.

These acquisitions have been accounted for by the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Corporation's financial statements from the effective date of purchase.

The details of the acquisition are as follows:

Net assets acquired:		
Current assets	$	207,499
Investments, at cost		20,027
Purchased customer accounts		930,071
Due from related parties		105,749
Capital assets		123,900
Goodwill		1,279,913
Long-term debt		(13,806)
Accounts payable and accrued liabilities		(470,613)
Deferred income taxes		(45,143)
Shareholders' loan		(35,800)
Net non-cash assets		2,101,797
Less bank indebtedness		(215,307)
	$	1,886,490

Consideration rendered:		
1,250,000 Common Shares @ $0.80 per share	$	1,000,000
Convertible debentures		445,000
Long-term debt		79,136
Cash		362,354
	$	1,886,490

10. Acquisition of corporations and operating assets (continued):

(c) Effective July 31, 1996, the Corporation purchased all of the issued and outstanding shares of Canada Brokerlink Insurance Services Inc. In consideration, the Corporation issued 2,700,000 Common Shares at approximately $0.11 per share. This acquisition was accounted for by the purchase method whereby the assets and liabilities were recorded at fair market values, and the operating results of Canada Brokerlink Insurance Services Inc. were included in the Corporation's financial statements from July 31, 1996.

The net assets acquired have been allocated as follows:

Net assets acquired:		
Current assets	$	11,000
Investments, at cost		3,000
Capital assets		47,000
Accounts payable and accrued liabilities		(56,000)
Shareholders' loans		(5,000)
Goodwill		426,000
Net non-cash assets		426,000
Less bank indebtedness		(137,000)
Consideration paid (see above)	$	289,000

11. Commitment:

The Corporation is committed to making the following payments for leased premises and equipment:

1998	$	631,714
1999		563,502
2000		552,234
2001		526,161
2002		292,311

12. Fair values:

The carrying values of the Corporation's current assets and current liabilities and long-term debt approximate their fair values as at December 31, 1997 due to the relatively short period to maturity of the instruments.

The estimated fair value of the liability component of the convertible debentures as at December 31, 1997 was also approximately equal to the carrying value. The estimated fair value of the debentures has been based on the present value of the contractual future payments of principal and interest, discounted at the current market rate of interest available to the Corporation for the same or similar debt instruments. The estimated fair value does not incorporate the value that may be attributable to the conversion feature inherent in the debentures.

13. Subsequent event:

Effective March 1, 1998, the Corporation purchased all of the outstanding shares of Dashkro Incorporated O/A Diamond K. Insurance for consideration of $765,016 consisting of cash totaling $382,508, a promissory note of $153,003, and 109,811 Common Shares of the Corporation with an attributed value of $2.09 per share. This acquisition will be accounted for by the purchase method whereby the assets and liabilities will be recorded at fair market values, and the operating results will be included in the Corporations financial statements from March 1, 1998. Details of the acquisition are as follows:

Cash	$	1,890
Accounts receivable		122,605
Accounts payable and accrued liabilities		(50,821)
Goodwill		691,342
Net assets acquired (Consideration paid)	$	765,016

14. Presentation:

Certain of the prior period's figures have been reclassified to conform with the current years presentation.

Corporate Directory

Directors and Officers

Rick Grass
President & CEO, Board Chairman

Charles B. Loewen
Director (2) (3)

Gerry E. Meinzer
Director (1) (3)

Rt. Hon. Don Mazankowski
Director (1) (2)

Terry R. Gibson
Director (1) (2) (3)

Laurence Decore
Director, Corporate Secretary,
VP Communications

Lane McKay
Director, VP Acquisitions

L.M. (Mike) Santiago
VP & CFO

Henry Hauck
VP Finance

John Dewit
VP & Chief Operating Officer

Larry Heron
Regional VP, Alberta

Jon Ouellette
Regional VP, Ontario

Committee Membership Key:

(1) Corporate Governance
(2) Compensation
(3) Audit

Head Office

Canada Brokerlink Inc
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Calgary, AB T2P 3P4
Phone: (403) 218-1300
Fax: (403) 218-2124

Legal Counsel

Ogilvie and Company
1600 Canada Place
407 - 2nd Street SW
Calgary, AB T2P 2Y3

Auditors

KPMG
#1200, 205 - 5th Avenue SW
Calgary, AB T2P 4B9

Transfer Agent

CIBC Mellon Trust Company
Toronto Dominion Square
#600, 333 - 7th Avenue SW
Calgary, AB T2P 2Z1

Bankers

Bank of Montreal
First Canadian Centre
340 - 7th Avenue SW
Calgary, AB T2P 0X4

Listing

Alberta Stock Exchange
Calgary, AB
Trading Symbol: CKK
Canada Brokerlink Inc.

Owned Brokerage Locations (at April 1, 1998):

Alberta

Calgary
Calmar
Cold Lake
Crossfield
Edmonton
Taber
Thorsby
Westlock
Wetaskiwin

Ontario

Chapleau
Elliot Lake/Blind River*
Geraldton
Hamilton
Huntsville*
Kenora
Longlac
Manitouwadge
Marathon
Markham*
North Bay*
Parry Sound*
Red Lake
Sioux Lookout
Sturgeon Falls*
Sudbury*
Terrace Bay
Thunder Bay
Toronto
Wawa

* Purchase becomes effective June 1, 1998

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